IAT AIR CARGO FACILITIES INCOME FUND

ANNUAL REPORT

For the year ending December 31, 2003

IAT Air Cargo Facilities Income Fund

The IAT Air Cargo Facilities Income Fund (the "Fund") is an unincorporated, limited purpose trust established on March 15, 1997 under the laws of the Province of British Columbia that holds all of the common shares (the "Shares") of International Aviation Terminals Inc. (the "Company" or "IAT") and $53,000,000 aggregate principal amount of unsecured subordinated notes due June 10, 2027 (the "Notes") of IAT.

IAT is in the business of developing and leasing buildings and related space at airports, which are designed for use by businesses involved in air transport services including air cargo, aircraft maintenance and ground handling. IAT leases land at airports in Vancouver, Calgary, Edmonton, Saskatoon and Winnipeg under long-term ground leases from airport authorities or the Government of Canada in these cities. It leases the facilities developed on these lands, which comprise a total of approximately 1,247,000 square feet, to approximately 138 tenants.

The Trust Units are traded on the Toronto Stock Exchange under the symbol ACF.UN.

Cover photograph -

Aerial view of IAT multi-tenant and special-use air cargo facilities at the company's headquarters at Vancouver International Airport

Contents

Highlights

FINANCIAL RESULTS	**Year Ended 31 December 03**	**Year Ended 31 December 02**
($000's except per unit amounts)		
Income from International Aviation Terminals Inc.		
Interest on the Notes	$ 5,757	$ 6,305
Equity in loss of IAT	(1,700)	(1,330)
Amortization of purchase price discrepancy	(1,052)	(1,052)
	$ 3,005	$ 3,923
Expenses		
Administration Costs	298	190
Net Earnings	**$ 2,707**	**$ 3,733**
Items not affecting cash – equity in loss of IAT and amortization of purchase price discrepancy	2,752	2,382
Change in non-cash working capital items	22	10
Net cash effect of March 22, 2002 unit issue	—	(15)
Dividends Received	**444**	**972**
	$ 5,925	**$ 7,082**
Distribution Declared	**$ 5,656**	**$ 7,138**
Distribution Declared Per Trust Unit (1)	$ .856	$ 1.130
Unitholders' Equity		
Unitholders' Equity – Opening	$ 57,291	$ 46,778
Net Earnings for the Year	2,707	3,733
Distribution Declared	(5,656)	(7,138)
Prior Year Dividend Declaration (2)	—	(215)
Proceeds from Units Issued in the Year Net of Expenses	—	14,133
Unitholders' Equity – Closing	$ 54,342	$ 57,291

(1) Based on the weighted average number of units outstanding throughout the year (2003 = 6,606,368; 2002 = 6,316,790).

(2) Dividends, if any, are declared at the end of each quarter at the discretion of the directors of IAT and payable to the Fund on the 15th of the first month following the quarter.

Message to Unitholders

We are pleased to provide you with the seventh Annual Report of the IAT Air Cargo Facilities Income Fund.

Distributions by the Fund to Unitholders are entirely dependent upon interest and dividend payments received from IAT. These payments are dependent upon the earnings and cash flow from the operations of IAT which are affected by the occupancy of its facilities, the lease rates achieved from tenants, the recovery from tenants of its building operating costs and the amounts and timing of capital expenditures and the recoveries of such expenditures.

The persistence of problems affecting businesses in the airline and air cargo industries since 2000 have reduced their levels of activity and cash flow. These factors have in turn reduced demand for leased space and lowered occupancy rates for IAT. Because of the lease commitments of IAT's tenants, IAT and the Fund were able to maintain distribution levels through 2002 despite these conditions. To preserve cash, the directors of IAT reduced the quarterly dividend payment to the Fund by approximately $95,000 in the first quarter of 2003. On April 1, 2003, IAT's largest tenant, Air Canada, obtained a protective order under the Companies' Creditors Arrangement Act (CCAA) which permitted it to vacate the majority of the space that it leased from IAT.

As a result of Air Canada's actions, IAT's revenues and cost recoveries have been reduced significantly in the latter part of 2003.

In response to this situation, the dividend payments from IAT were discontinued in the second quarter of 2003 and, with the approval of the Unitholders at the Annual and Special Meeting held on June 23, 2003, the interest rate on the Notes was amended from a fixed 12.5% to a variable rate fixed quarterly, based on IAT's earnings.

This has led to a reduction in distributions to Unitholders in 2003 to $0.856 per Unit compared to $1.130 in 2002.

Problems continue to affect airlines and the air cargo industry. The volumes of air cargo through Vancouver, IAT's largest location, remain below the level achieved in 1999. Uncertainty continues regarding the future of Air Canada which still leases 5% of IAT's space. However, progress is being made in re-leasing space vacated and IAT's earnings have begun to improve. In the first quarter of 2004, the directors of IAT recommenced payment of a modest dividend to the Fund in view of prospects for improvement in leasing activity and occupancy rates. Management of IAT believes it has adequate cash reserves for its business requirements, including the funds required to make the improvements to its facilities to induce new lease commitments.

We look forward to the seventh Annual General Meeting of Unitholders of the Fund to be held at 2:00 p.m. on June 10, 2004 at the Hotel Vancouver in Vancouver, British Columbia and to reporting to you on the results of the Fund for the first quarter of 2004.

Respectfully submitted on behalf of the Trustees,

Robert J. Mair, Q.C.
Chairman
IAT Air Cargo Facilities Income Fund

April 19, 2004

Fund Structure

IAT Air Cargo Facilities Income Fund is a limited purpose trust created under the laws of British Columbia on March 15, 1997 pursuant to a Declaration of Trust. The Fund was created to own all of the Shares and Notes of IAT. IAT leases space in 19 air cargo facility buildings to businesses operating in the air cargo business and other aviation related businesses. IAT also leases space in its Airside Facilities at Vancouver's South Airport to businesses involved in the maintenance of aircraft. The Fund's principal office is located at Suite 2000 - 5000 Miller Road, Richmond, British Columbia V7B IK6.

The Fund does not carry on any active business but rather is restricted to holding the Shares and Notes of IAT and, on a temporary basis, cash and short-term investments. The affairs of the Fund are supervised by four Fund Trustees. The affairs and operations of IAT are supervised by its Board of Directors and management is provided under certain management and governance agreements made with IAT Management Inc., controlled by T. Richard Turner, and LMT Management Ltd., which is controlled by all of the former shareholders of IAT.

Management of IAT

LMT Management Ltd. provides strategic advice under a ten-year Strategic Management Agreement with IAT. Pursuant to the provisions of a Corporate Governance Agreement, the Board of Directors of IAT is to be comprised of five members nominated as follows:

- two directors nominated by the Fund, one of whom is not a Fund Trustee and is also an "unrelated director" (within the meaning of the corporate governance policy of The Toronto Stock Exchange); and
- three directors nominated by LMT Management Ltd., one of whom is an "unrelated director".

Pursuant to the Strategic Management Agreement, the Board of Directors of IAT appoints the executive officers of IAT in accordance with the recommendations of LMT Management Ltd. At this time, the executive officers of IAT are: Denise E. Turner, T. Richard Turner and Wayne A. Duzita, the last two of whom are full time employees of IAT Management Inc., which provides management and other services as described below in greater detail. LMT Management Ltd. has been granted the right to acquire up to 25% of the outstanding common shares of IAT. An initial option was granted in connection with the acquisition of IAT by the Fund on June 10, 1997, exercisable for up to 1,761,722 shares at $1.335 per share ($2,351,900 in aggregate). An additional option was granted on March 22, 2002 to purchase up to 513,206 shares at $1.72 per share ($882,714 in aggregate) in connection with the Fund's issuance of additional Units and subscription by the Fund for additional Notes and Shares of IAT. These option rights become exercisable over a five-year period from January 1, 2003. Both options are exercisable up to June 10, 2007. LMT Management Ltd.'s director nomination rights are tied to retention of common shares, or these options to acquire such Shares, comprising at least 10% of the common shares of IAT.

In addition, IAT contracts its day-to-day property management and leasing and marketing activities to IAT Management Inc. pursuant to a Property Management Agreement and a Leasing and Marketing Agreement, each of which had an initial ten-year term. IAT Management Inc. is controlled by T. Richard Turner, the President and Chief Executive Officer of IAT, and is responsible for the management of the business of IAT and for employing and remunerating executive officers. The fees payable for the services under the Property Management Agreement and the Leasing and Marketing Agreement are 5.75% and 2.1%, respectively, of gross receipts of IAT. The Property Management fees are recoverable from tenants; the Leasing and Marketing fees are not. IAT Management Inc. is also entitled, when applicable, to a fee of 6% of the cost of construction of certain improvements to leased premises, which fee is also not recoverable.

During 2002, the Directors of IAT determined to extend the term of the Property Management Agreement and the Leasing and Marketing Agreement in order to ensure continuity in the existing management arrangements. In addition, to facilitate consideration of various strategic alternatives and, at the same time, better align the interests of the Unitholders and those of IAT Management Inc., the Directors decided to provide for the ability to terminate these agreements at any time on 90 days' notice, subject to payment of a termination fee based on a 2.25 multiple of the basic management fees payable for the most recently completed four fiscal quarters. This arrangement is intended to provide some sharing of the potential benefit of any sale of the business, while recognizing that IAT Management Inc. has ongoing commitments and will incur substantial costs in the event of a termination of its management as it employs all of the management personnel. Accordingly, these agreements were amended to provide for an "evergreen" ten year term, automatically extending annually by a further year unless otherwise terminated in accordance with its provisions.

IAT may also terminate the property management and leasing and marketing arrangements on individual properties that may be sold. If the remaining total area of properties under management is less than a minimum area (916,000 square feet prior to any change of control of the Fund or IAT), a termination fee may also become payable in respect of the property disposed of, based on a multiple of 2.25 times the management fees paid for that property. No other amount is payable by IAT in respect of any such termination for the costs and expenses that may be incurred by IAT Management Inc. or its obligations to its employees as a result of any such termination.

DIVIDEND POLICY AND DISTRIBUTIONS

The Board of Directors of IAT has adopted a policy of distributing by way of dividends or a return of capital on the Shares substantially all of IAT's available cash after payment of all interest obligations on the Notes and other obligations, subject to IAT retaining such reserves as may be considered appropriate by the Board of Directors of IAT for capital expenditures and working capital.

The amount of cash to be distributed annually by the Fund per Trust Unit will, generally, be equal to the pro rata share of interest and dividends received by the Fund in the year, less expenditures incurred by the Fund. Quarterly distributions are payable to Unitholders of record on the last day of each calendar quarter and are expected to be paid on or about the 15th day of January, April, July and October of each year.

Dividends have been paid quarterly by IAT, initially at the quarterly rate of $0.028 per unit, with an additional amount being paid on April 15th in 1998, 1999 and 2000, representing surplus cash available for distribution in respect of the prior year. In December 1999, IAT determined that the increased cash flow of IAT was sufficient to permit regular quarterly dividends to be increased to $0.041 per unit, and payments at this level commenced in January 2000 and continued through 2002. In the first quarter of 2003, with continued adverse business conditions affecting the airline and air cargo industries, including the effects of war in the Middle East and health issues, and in order to maintain adequate cash reserves, the Directors of IAT determined to reduce the level of quarterly dividend payable to the Fund by $0.014 per Unit (approximately $95,000) to $0.027 per Unit. After the actions taken by Air Canada in vacating leased space, no further dividends were declared in the remainder of 2003.

With some improvements in the prospects for leasing activity and occupancy, together with cash reserves on hand anticipated to be sufficient for capital requirements of IAT, IAT's directors declared a dividend of $0.029 per Unit ($191,585 in aggregate), payable on April 15, 2004.

The Fund is a taxable trust under the *Income Tax Act* (Canada) and is subject to taxation on its income for the year less the portion paid or payable to the Unitholders. Since all income is paid to the Unitholders in the year, the Fund has no taxable income.

Distributions paid by the Fund are generally taxable in the hands of the Unitholders. They are comprised of the interest (reported as "other income") and dividend income received by the Fund and, for the years 1997 through 2006, will also include an amount equivalent to the amortized portion of costs of issuance of the Trust Units which will be treated as a reduction of the adjusted cost base of the Unitholders' Trust Units and will be non-taxable.

Upon the disposition or deemed disposition of a Trust Unit, the Unitholder will generally realize a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition are greater (or less) than the adjusted cost base of the Trust Unit and any reasonable costs of disposition.

Operations of IAT

The information contained in this Annual Report concerning the operations and financial condition and results of IAT is provided by IAT Management Inc.

IAT is in the business of developing and leasing buildings and related space at airports, which are designed for use by businesses involved in air transport services including air cargo, aircraft maintenance and ground handling. IAT leases land at airports in Vancouver, Calgary, Edmonton, Saskatoon and Winnipeg under long-term ground leases from airport authorities or the Government of Canada in these cities.

Facilities

IAT has approximately 1,247,000 square feet of available space for lease in 19 buildings either developed or acquired by IAT on land leased by IAT. At December 31, 2003, 921,751 square feet (73.9%) of available space was leased by IAT to 138 tenants (34 of whom occupy space in IAT's buildings at more than one airport). Eleven of these facilities, comprising approximately 850,000 square feet of space, are on approximately 61 acres of land at the Vancouver International Airport. A 52,000 square foot building at Vancouver primarily leased by one tenant is owned in a joint venture company in which IAT has a 50% interest.

Tenants of IAT's facilities operate businesses within the air cargo industry as well as within the aircraft maintenance and ground handling industry. These tenants include passenger airlines such as WestJet, Air Canada, integrated freight carriers such as UPS, DHL International, Menlo Worldwide and BAX Global, air cargo handlers, freight forwarders, customs brokers, government agencies and others. No tenant occupies more than 10% of IAT's space.

These businesses generally require direct access to airport infrastructure such as runways, passenger terminals, taxiways and secure service roads. Most of IAT's buildings are "airside" (buildings that are contiguous to or have direct access to airport infrastructure). Generally, "airside" buildings do not compete directly for tenants with "non-airside" buildings (buildings lacking such access). Consequently, IAT's results are more sensitive to the level of activity in the aviation industry rather than to the overall real estate cycle.

IAT's air cargo buildings are specifically designed for the needs of the air cargo industry with a flexible, modular design which permits a variety of configurations and expansion or contraction depending upon the needs of current and potential tenants. A combination of specialized facilities and limited availability of suitable land means that "airside" buildings generally achieve rents above those paid for industrial or warehouse buildings in non-airport locations.

Typically, IAT enters into leases with tenants for terms of five to ten years. Depending on the needs of the tenant, some leases are of shorter duration. Leases of approximately 15% to 20% of IAT's rentable space expire each year.

Discussion and Analysis of Financial Condition and Results of Operations

General

The Fund does not carry on any active business and is restricted to holding, and derives all its income from, the Shares and Notes of IAT. Accordingly, the Fund is entirely dependent on the results of operations of IAT which are summarized and included in the following discussion. Additional information relating to the Fund and IAT is contained in the Fund's Annual Information Form and the Financial Statements of the Fund and IAT that are available through the internet at www.sedar.com.

IAT's revenues and earnings and its level of distributable cash are affected by vacancy and lease rates, operating cost recoveries and maintenance and other capital cost requirements. These in turn are dependent on demand for the movement of air freight. The aviation industry in which IAT operates is cyclical, and the demand for the movement of air freight is dependent upon the overall economy and level of activity in the aviation industry.

Due to the slowing of world economic growth, the volume of air freight worldwide has decreased from its peak levels. In Vancouver air cargo volumes in 2003 were approximately 8.1% below the level of volumes in 2002 and 20% less than the volume achieved in 1999. The financial condition and results of operations of IAT are primarily affected by its operations at the Vancouver International Airport which account for approximately 67.7% of the space leased by IAT and 72.4% of its revenues for the year ended December 31, 2003 (63.4% of space and 74.5% of revenues for 2002).

IAT's occupancy levels from 1993 to 2002 were consistently in excess of 89%. In 2003, primarily due to Air Canada vacating space, as well as the continuing adverse economic conditions for airlines and the air cargo industry generally, IAT's occupancy rates dropped from 89.3% at the end of 2002 to 72.6% immediately after the termination by Air Canada of the majority of its leases and 73.9% at the end of 2003. Average occupancy for IAT's facilities for 2003 was 77.0%. Notwithstanding the adverse conditions, IAT has been able to increase its average lease rates for 2003 by 5.7% to $9.81 per square foot. The rate of operating cost recoveries generally match occupancy rates and such recoveries declined by 8% in 2003.

The strategy of IAT's management is to maintain or increase occupancy and cost recoveries so as to maximize cash flow.

Comparability of Results

The comparability of results of the Fund and IAT in various periods is affected by the following factors.

In 2003, Air Canada obtained an order under the *Companies Creditors Arrangement Act* (CCAA) protecting it from enforcement of creditors' and landlord's rights. This enabled Air Canada and its subsidiary, Jazz Air Inc., to terminate leases with IAT which accounted for approximately 16% of IAT's budgeted revenue and cost recoveries for 2003. Lease rates and recoveries on some portions of this space were significantly below IAT's average rates for 2003.

After vacating the majority of the space formerly occupied by it, Air Canada now occupies 5.3% of IAT's space available for lease (formerly over 23%), which contributes approximately 6% of total revenues (formerly 19%).

During 2003, in light of the issues affecting its business, IAT agreed with the Fund to amend the interest rate on the subordinated Notes held by the Fund to a variable rate based on IAT's most recent quarterly earnings. This amendment became effective in the third quarter of 2003 after approval by Unitholders at the Annual and Special General Meeting held on June 23, 2003. Interest payments on

the Notes were made at an annual rate of 12.5% for the first two quarters of 2003 and at an annual rate of 9.47% and 8.96%, respectively, in the third and fourth quarters. Dividend payments on the Shares held by the Fund were reduced to $175,000 for the first quarter of 2003 and then eliminated in the remaining quarters of 2003. Total distributions received by the Fund from IAT during the year were $6,200,000 in 2003 compared to $7,277,000 in 2002, while distributions paid to Unitholders were $5,656,000 for 2003 compared to $7,138,000 for 2002. Higher administration costs incurred by the Fund in 2003 reflected the increased expenses associated with approval of the amendment of the Note indenture.

On March 22, 2002, the Fund issued 1,321,200 additional units and invested $11,500,000 from the proceeds in Notes of IAT and $2,181,363 in additional common shares of IAT, net of issue costs. These proceeds were used by IAT to retire $13,362,850 in mortgage debt, net of early payment fees. The retirement of this debt reduced mortgage interest costs for nine months in 2002 and throughout 2003, and improved earnings for IAT and increased interest payments on the Notes in the corresponding periods.

In June 2000, IAT acquired approximately 210,000 square feet of hangar, office, shops and ramp space (the "Airside Facilities") at Vancouver International Airport. Approximately 111,000 square feet consists of ramp space. Because of the mixed nature of the Airside Facilities, lease, occupancy and recovery rates are lower on average than the typical air cargo facilities owned by IAT and IAT's average lease rates and occupancy rates for years after 2000 are lower as a result of including this space. The acquisition agreement for the Airside Facilities included an arrangement for potential "top up" of actual cash flow from a contingent reserve of $541,732. This amount was set aside as "restricted cash", available to supplement lease revenues over a three-year period and, if not so required, to be paid to the vendor at the end of that period. If cash flow from this property did not meet the annual projections for a year, the deficiency was drawn from the amount reserved, and was to be adjusted on the basis of cumulative cash flow at the end of the three year period ended June, 2003. In 2001, $222,887 was drawn by IAT to supplement cash flows from the first year of ownership. An additional $122,248 was drawn in 2002 to supplement cash flows from this property for the second year, and the final balance of $196,597 was drawn in 2003.

SELECTED FINANCIAL INFORMATION OF THE FUND[1]

	Year Ended December 31		
	2003	2002	2001
Revenue[2]	$5,757	$6,305	$5,188
Net Earnings[3]	2,707	3,733	8,143[3]
Basic and Diluted Net Earnings Per Trust Unit	0.410	0.591	1.541
Total Assets	55,580	59,238	48,079
Total Long-Term Financial Liabilities	–	–	–
Distributions Per Trust Unit[4]	0.856	1.130	1.114

Notes:

(1) All figures expressed in thousands of Canadian dollars except per unit amounts. Financial data has been prepared in accordance with Canadian generally accepted accounting principles.

(2) Revenue is interest income on Notes only, before equity in earnings of IAT and amortization of purchase price discrepancy. Amounts received as dividends are not included.

(3) Net earnings includes equity in earnings of IAT and amortization of purchase price discrepancy. In 2001, the provision for future income taxes increased the Fund's equity in IAT's earnings by $1.6 million and the amortization provision was decreased by $2.8 million.

(4) 6,606,368 Trust Units outstanding since March 22, 2002. The weighted average of 6,316,790 Units was used in calculations for the year 2002 due to the issuance of 1,321,200 Trust Units on March 22, 2002. 5,285,168 Units outstanding in 2001.

Results of Operations of IAT

Selected Financial Information of IAT(1)

	Year Ended December 31		
	2003	2002	2001
Lease Revenue	$9,554	$10,503	$10,622
Operating Costs	8,090	7,914	8,048
Cost Recoveries	6,840	7,344	7,649
Earnings Before Interest on Notes, Income Taxes and Amortization	6,662	7,880	7,546
Net Earnings (loss)	(1,700)	(1,330)	1,203
Capital Expenditures: (2)			
Maintenance (3)	385	71	33
Refurbishment (4)	471	475	348
Principal paid on Mortgages (5)	447	504	779
Assets	65,045	67,666	70,819
Long-Term Debt	68,698	68,467	70,709

Notes:

(1) All figures expressed in thousands of Canadian dollars except per unit amounts. Financial data has been prepared in accordance with Canadian generally accepted accounting principles.

(2) Does not include financing costs of new facilities.

(3) Recoverable from tenants under the terms of the various tenant leases.

(4) Not recoverable from tenants. In 2001, this amount includes approximately $235,000 of funds spent to develop tenant improvements for a tenant in Vancouver; in 2002 it includes $445,000 for improvements in Edmonton; and in 2003 it includes an additional $318,000 for Edmonton improvements.

(5) Does not include $1,471,000 of mortgage debt refinanced in 2003 or $13,239,000 of mortgage debt repaid from proceeds of an issue of Trust Units in 2002.

(6) Long-term debt includes $53,000,000 of subordinated Notes held by the Fund ($41,500,000 at December 31,2001) and $15,698,239 of mortgage debt (2002 - $15,466,581; 2001 - $29,209,141), inclusive of the current portion.

Earnings before interest on Notes, income taxes and amortization ("EBITDA") is not a recognized measure under Canadian generally accepted accounting principles ("GAAP") but is a useful supplemental indicator of cash available for distribution prior to interest requirements on Notes, amortization and income taxes. The Fund's method of calculating EBITDA may differ from other issuers and is not to be construed as an alternative to net earnings determined in accordance with GAAP. The following table provides a reconciliation of EBITDA to cash flow of IAT for 2003 and 2002.

RECONCILIATION OF EBITDA TO CASH[1]

	2003	2002	2001
EBITDA	$ 6,662	$ 7,879	$ 7,546
Interest on Notes	(5,757)	(6,305)	(5,187)
Current Taxes	(117)	(112)	(158)
Cash flow from Operating Activities	788	1,462	2,201
Change in Working Capital	(147)	176	75
Cash flow from Investing Activities	(291)	(364)	(108)
Cash flow from Financing Activities	(212)	(1,033)	(1,388)
Increase in Cash	138	241	780
Cash Beginning of Period	1,825	1,583	803
Cash End of Period	$ 1,963	$ 1,824	$ 1,582

Notes:
(1) All figures expressed in thousands of Canadian dollars. Financial data has been prepared in accordance with Canadian generally accepted accounting principles.

SELECTED RATIOS OF IAT

	Year Ended December 31		
	2003	2002	2001
Total Square Feet Owned at Year End	1,220,070	1,220,070	1,220,070
Occupancy Rate at Year End	73.9%	89.3%	92.7%
Average Square Feet Owned During Year	1,220,070	1,220,070	1,220,070
Average Occupancy Rate During the Year	77.0%	89.4%	93.2%
Average Lease Rate During the Year	$9.81	$9.28	$8.98
EBITDA Per Average Square Foot Owned	$5.46	$6.46	$6.18
EBITDA/Revenue	69.7%	75.0%	71.0%
Building Operating Cost Recovery	84.5%	92.8%	95.0%
EBITDA Per Trust Unit [1]	$1.01	$1.25	$1.43

Notes:
(1) 6,606,368 Trust Units outstanding since March 22, 2002. For 2002, based on the weighted average number of Units outstanding through the year of 6,316,790. 5,285,168 Units outstanding in 2001.

Annual Results

The lower level of revenues and operating cost recoveries for 2003 principally reflect the decreased occupancy levels of 2003 compared to prior years.

During 2002, Air Canada and affiliates leased space from IAT which accounted for 23% of IAT's total net rentable area and 19% of its revenue. Air Canada obtained a stay of proceedings order under the CCAA on April 1, 2003 which granted it protection from creditors' rights, including the enforcement of remedies by landlords including IAT. Air Canada then terminated leases from IAT of approximately 100,000 square feet of air cargo facilities and 20,000 square feet of ramp space. Air Canada also did not renew its lease of 121,000 square feet of building and aircraft ramp space at IAT's Airside Facility at Vancouver's South Airport.

As a result, IAT's average occupancy rate for 2003 declined to 77.0% (81.8% exclusive of ramp space) from 89.4% (90.4% exclusive of ramp space) for 2002. The average occupied square footage for 2003 was approximately 960,000 square feet in 2003 compared to 1,113,500 in 2002. Vacant space at December 31, 2003 was 325,000 square feet versus 133,000 at the end of 2002.

Lease revenues of IAT for 2003 were $950,000 below the level of such revenues for 2002 and operating cost recoveries declined by approximately $500,000. The decrease in lease revenues and recovery of operating costs attributable to increased vacancy rate was partially offset by improved lease and cost recovery rates under leases, in part reflecting the benefit of IAT's investment in its facilities to achieve improved lease terms. The average lease rate in 2003 was $9.81 compared to $9.28 in 2002.

Leasing and marketing fees decreased by approximately 10% reflecting lower occupancy levels. Interest on mortgage debt was also lower by approximately $360,000 as a result of the repayment of mortgage debt in 2002. Refurbishment expenditures in 2003 continued at a higher than normal level as IAT is investing in improvements to its facilities to obtain new lease commitments and renewals from tenants at favourable lease rates.

As a result, despite 5.7% higher average lease rates in 2003, IAT's EBITDA was lower at $6,662,000 ($6.95 per occupied square foot) compared to $7,880,000 ($7.08 per occupied square foot) in 2002 ($7,546,000 or $6.50 per occupied square foot in 2001).

Recovery of building operating costs for 2003 was approximately 84.5% compared to 92.8% for 2002. Operating costs not recovered from tenants in 2003 were $1,250,116 compared to $570,000 for 2002 and $400,000 in 2001, as a result of lower average occupancy levels. Occupancy levels at the Airside Facilities acquired in June 2000 were 31.9% (49.5% excluding ramp area) at December 31, 2003 compared to 82.3% (85.1% excluding ramp area) at December 31, 2002, and have been consistently lower than IAT's air cargo facilities. However cash flow has been supplemented since acquisition by drawings from a restricted cash reserve of $542,000 set up on acquisition to supplement lease revenues. In 2003, the final $197,000 of the restricted cash reserve was drawn ($122,000 in 2002).

Refurbishment capital expenditures (not recoverable from tenants) have increased from $234,000 in 2000 to $348,000 in 2001 and to over $470,000 in each of 2002 and 2003, primarily due to investments in facilities to accommodate tenants in Vancouver and Edmonton entering into 5-year and 10-year lease commitments.

QUARTERLY FINANCIAL INFORMATION OF THE FUND

	Quarter Ending 31 Dec 03	Quarter Ending 30 Sept 03	Quarter Ending 30 Jun 03	Quarter Ending 31 Mar 03	Quarter Ending 31 Dec 02	Quarter Ending 30 Sept 02	Quarter Ending 30 Jun 02	Quarter Ending 30 Mar 02
Interest Income from IAT	$1,190	$1,255	$1,657	$1,655	$1,657	$1,656	$1,656	$1,336
Net Earnings(2)	562	565	617	963	(735)	3,099	549	820
Net Earnings per Trust Unit(2)	0.085	0.086	0.093	0.146	(0.112)	0.469	0.083	0.151(3)
Dividends Declared	—	—	—	175	269	269	269	220(4)
Total Distributions	1,169	1,173	1,551	1,763	1,899	1,862	1,867	1,510(4)
Distributions per Trust Unit	0.177	0.178	0.235	0.267	0.287	0.282	0.283	0.278(3)(4)

QUARTERLY FINANCIAL INFORMATION OF IAT INC.

	Quarter Ending 31 Dec 03	Quarter Ending 30 Sept 03	Quarter Ending 30 Jun 03	Quarter Ending 31 Mar 03	Quarter Ending 31 Dec 02	Quarter Ending 30 Sept 02	Quarter Ending 30 Jun 02	Quarter Ending 30 Mar 02
Lease Revenue	$2,299	$2,284	$2,370	$ 2,601	$2,634	$2,611	$2,618	$2,640
EBITDA	1,637	1,532	1,523	1,970	2,208	1,887	2,044	1,741
Interest on Notes and Amortization (5)	(2,143)	(2,038)	(2,490)	(2,491)	(2,922)	(2,383)	(2,472)	(2,104)
Earnings Before Tax	(506)	(506)	(967)	(521)	(714)	(496)	(428)	(363)
Provision for Taxes	209	113	350	128	(1,377)	2,238	(356)	166
Fund Equity in Earnings (Loss) of IAT	(297)	(393)	(617)	(393)	(2,091)	1,742	(784)	(197)

Notes:
(1) All figures expressed in thousands of Canadian dollars except per unit amounts. Financial data has been prepared in accordance with Canadian generally accepted accounting principles.
(2) Quarterly earnings vary as a result of the provision for equity in earnings or loss of IAT which have been affected by various factors including the provisions for future income taxes (and adjustments in quarterly estimates).
(3) Based on weighted average number of units for the quarter, due to the issue of additional 1,321,200 units on March 22, 2002.
(4) A proportionate distribution of $0.0326 per unit was made on the 1,321,200 Trust Units issued on March 22, 2002 for the period ending on March 31, 2002.
(5) In the quarter ending December 31, 2002, includes $351,000 write down of property.

4TH QUARTER RESULTS

For the fourth quarter of 2003, IAT's lease revenues were $2,299,000 compared to $2,634,000 for the fourth quarter of 2002 and $2,284,000 for the third quarter of 2003. Lease revenues in the fourth quarter of 2003 reflect the full impact of the terminations of leases by Air Canada, offset marginally by higher average lease rates and the re-leasing of 61,000 square feet of building space during the latter half of 2003.

Despite lower occupancy, the total amount of operating cost recoveries improved in the fourth quarter of 2003 to approximately $1.9 million from $1.5 million in the third quarter, as improved lease terms enhanced recoveries. Recoveries in the fourth quarter were 74.9% of operating costs compared to 89.3% in the fourth quarter of 2002 due to lower occupancy. Occupancy at December 31, 2003 was 73.9% compared to 89.3% at the end of 2002 (76.7% at September 30, 2003). EBITDA for the fourth quarter was $1,637,000 compared to $2,208,000 for the fourth quarter of 2002 ($1,532,000 for the third quarter of 2003).

LIQUIDITY AND CAPITAL RESOURCES

The Fund is totally dependent upon IAT for the cash to pay its administrative expenses and the amounts ultimately distributed to the Unitholders. The distributions of the Fund are based upon amounts of interest and dividends paid by IAT. The annual interest payment on the Notes is a continuing obligation of IAT to the Fund. IAT has adopted a policy of distributing to the Fund by way of dividends or a return of capital on the Shares substantially all of IAT's available cash after reserves and payment of all interest obligations on the Notes. The amount available will fluctuate based upon IAT's earnings and its requirements for refurbishment capital, financing costs and working capital.

IAT's cash from operations is not seasonal but is cyclical as it pertains to the aviation industry. Operating expenses (including property taxes and insurance) are recovered from tenants as the cost is incurred throughout the year. IAT maintains an operating credit facility of $750,000 to meet its working capital requirements. To date, IAT has always been able to meet all its working capital and other cash requirements from its own sources of cash and, accordingly, there has been no drawing on this facility.

The level of normal refurbishment capital expenditures necessary to keep the business operating at current levels of profitability is anticipated to be approximately $150,000 per year and relates primarily to the refurbishing of tenant areas upon lease expiry or to accommodate new tenants in vacant space. In 2003, IAT incurred $471,000 of refurbishment costs ($318,000 in expenditures were incurred in 2003 to complete a Government of Canada facility in Edmonton) and these were paid from IAT's cash flow from operations. A $650,000 mortgage was subsequently procured for the Edmonton facility. In addition, operating expenditures of approximately $50,000 per year are required to paint, repair and otherwise clean tenant areas from time to time. These costs are not recoverable from tenants. In 2003 and continuing into 2004, a higher level of general building refurbishments are being undertaken to ensure the facilities continue to attract new tenants. These costs are expected to be recoverable in higher lease rates over 3 to 10 years. In 2003, $385,000 was expended on this initiative.

IAT may on occasion require additional capital to fund acquisitions and developments. These include the Phase X development at the Vancouver International Airport, which opened in March 2000 and cost $3.7 million. Such acquisitions and developments are primarily funded by mortgage financing. In addition, IAT may incur costs from time to time in connection with potential acquisitions or expansions and related financing proposals. Pending the completion or other termination of these proposed transactions, such costs may be deferred and subsequently may be capitalized as part of the acquisition costs, applied against financing proceeds or expensed, depending on the nature and outcome of the proposed transaction.

In March 2002, the Fund issued an additional 1,321,000 Units and raised net proceeds of

approximately $14 million which were invested by the Fund in additional Notes and Shares of IAT. IAT applied the proceeds to repay mortgage debt of approximately $13.2 million.

The following table sets forth long term contractual obligations of IAT as at December 31, 2003 by maturity date:

	Payments Due by Period				
	Total	**Less than 1 Year**	**1-3 Years**	**4-5 Years**	**After 5 Years**
	(Thousands of dollars)				
Long Term Debt(1)					
Mortgages(2)	15,698	501	3,508	6,416	5,273
Subordinated Notes	53,000				53,000
Operating Leases(3)	40,880	2,471	4,940	4,881	28,588
Total Contractual Obligations	109,578	2,972	8,448	11,297	86,861

Notes:

(1) Further information regarding IAT's long term debt obligations is included in note 6 to IAT's financial statements for the year ended December 31, 2003. The subordinated Notes are held by the Fund and mature June 10, 2027.

(2) Mortgages due in 2005 through 2008 are expected to be renewed at maturity for their outstanding principal amounts. Assuming such renewal, principal payments required in the second through fifth years are as follows: 2005-06 - $1,115,000; 2007-08 - $1,285,000.

(3) Operating leases are leases of land at various airports. IAT has no other capital or operating leases or purchase or other long-term obligations other than accounts payable for goods and services in the ordinary course of business.

Certain of IAT's mortgages require earnings to debt service or debt service and other expenditure tests to be met. IAT has not experienced any problems in meeting these tests and does not anticipate any problem in continuing to meet requirements at present levels of cash flow and earnings.

In response to the effects of Air Canada's termination of leases under the protection of a CCAA order and to the adverse market conditions affecting the airline and air cargo industries, the Fund agreed with IAT to an amendment of the terms of the subordinated Notes of IAT held by the Fund. In order to permit IAT to continue to meet the interest obligations under the Notes, the interest rate was changed to a variable rate based on IAT's earnings for the immediately preceding calendar quarter. The interest rate was originally fixed at 12.5%. It is now determined quarterly at 92.5% of IAT's earnings before interest on the Notes and before charges for depreciation and amortization but after debt service requirements (principal and interest) on mortgage debt and after the provision for current taxes payable, subject to a minimum rate of 6% and a maximum rate of 12.5% per annum.

The amendment of the interest rate has permitted IAT to continue to meet its obligations under the Notes without default and to preserve cash for the requirements of its business including anticipated requirements for improvements to its facilities in order to secure new leases with tenants for current vacant space as well as for renewal of space under expiring leases. As at December 31, 2003, IAT has cash on hand of $2 million as well as its unused line of credit. Management of IAT expects to invest approximately $1 million in its facilities in the course of its leasing activities to re-let vacant space.

Critical Accounting Estimates

The preparation of financial statements of IAT in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The following is a discussion of those critical accounting estimates where the actual results are considered by management to be most uncertain and where actual results could materially affect or alter the financial condition, changes in financial condition or results of operation of IAT.

Fees and Recoverable Costs

Provisions in IAT's interim financial statements for management fees and recoverable operating costs are based on management's estimates of such items. Actual fees charged and costs recovered may vary from the estimated amounts as a result of changes in tenants and occupancy levels, taxes, changes in suppliers invoice rates, variations in leases and lease terms and other factors. Adjustments to amounts charged in advance are made annually at the end of each year and generally do not result in significant adjustment in these provisions.

Future Income Taxes

Effective January 1, 2000, IAT and the Fund adopted the new recommendations of the Canadian Institute of Chartered Accountants relating to income taxes. These require a provision for future income taxes that represents the estimate of the future tax liability attributable to the difference between financial statement carrying values and the basis for tax purposes of various assets. Changes in income tax rates and estimates of liability are recognized in the period when a change occurs.

Such changes in income tax rates and estimates can have a significant effect on the provision for future income taxes in IAT and, at the Fund level, on the net amortization of the Fund's purchase price discrepancy, both of which can substantially vary the Fund's net earnings. Future income tax provisions have no effect on IAT's distributable cash or EBITDA or on payments to the Fund.

Carrying Value of Assets

Management of IAT reviews the carrying value of property, equipment and intangible assets for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from estimated future cash flows expected to result from its use and eventual disposition based on management's best estimate. In cases where undiscounted expected future cash flows are less than the carrying value, a writedown must be recognized. The estimation of expected future net cash flows is inherently uncertain and relies on assumptions regarding current and future economics and market conditions. If impairment analysis assumptions change, then an adjustment to the carrying value of the Company's long-lived assets could occur in the future period in which the assumptions change. To the extent that a property is considered impaired, the excess of the carrying amount of the property on the balance sheet over the estimated future cash flows is charged to earnings. Management of IAT believes that there is no impairment of the carrying values of its properties as of December 31, 2003.

Management estimates anticipated future cash flow from its properties based on assumed lease rates and occupancy levels over the remaining life of its land leases, based on the exercise of options to renew such leases. Recovery of IAT's investment in its facilities through lease revenues will depend on actual occupancy and lease rates in the future. Management will continue to review such values and may determine that adjustment is required in the future if changes in business conditions result in significant changes to expectations for occupancy and lease rates. However, extended vacancies at levels significantly greater than historically experienced by IAT would be required and at this time no such adjustment to carrying values is anticipated in the near future.

Except as described under "Future Income Taxes" as a result of changes in tax rates, no material changes have been made in the items determined by accounting estimates within the past two years.

Air Canada

IAT has filed claims in Air Canada's CCAA proceedings in respect of terminations by Air Canada and Jazz Air Inc. of their leases prior to the expiry dates of such leases. The amounts claimed represent the lease payments due over the remaining terms of the various leases and other amounts payable by Air Canada and Jazz Air Inc. No amount has been included in IAT's financial statements for recovery in respect of such claims due to the uncertainty of recovery at this time.

Changes in Accounting Policy

Effective January 1, 2004, IAT will change the policy of amortization of its investment in the buildings on its leased land from the sinking fund method to a straight line method. The investment is amortized over the lesser of 40 years and the remaining term of the lease. The resulting increase in the provision for amortization on buildings is not expected to exceed $300,000 per year.

Effective January 1, 2004, IAT will adopt the CICA requirement to provide for future obligations regarding restoration of its properties. Under its land leases, IAT may be required by its landlord to remove improvements (e.g., buildings) on the land leased at the expiry of such leases. A provision for the likely cost of any such removal and restoration will be required to be accrued quarterly commencing March 31, 2004. Management does not expect that this change in policy will have a material effect on IAT's financial statements.

Outlook and Risks

After a period of strong and sustained expansion of world trade and growth in air cargo volumes up to 2000, the adverse effects of a combination of worldwide economic slowdown, the events and aftermath of September 11, 2001 and crises involving health concerns and the Middle East has caused these volumes to decline into 2003. The continuing problems afflicting the airline and air cargo industries have reduced activity and cashflow for IAT's tenants, which has resulted in lower occupancy rates for IAT's facilities and deferral of renewal and demand for leased space.

IAT was somewhat insulated from the immediate effects of these problems because of its tenants' lease commitments. However, in 2003, with the extended duration of adverse conditions for the airline and air cargo industries and particularly, the actions taken by Air Canada, IAT has experienced significantly lower occupancy levels. While the outlook for IAT's lease business remains uncertain there are, however, indications that conditions are stabilizing for IAT's tenants and that there are prospects for improvements in leasing activity and occupancy rates for 2004. The volume of air cargo shipped through the Vancouver Airport in January, 2004 was 5.6% higher than for the corresponding period of 2003 and the highest level for January since 2000.

Management of IAT expects to continue to find tenants to lease the space vacated by Air Canada in 2003. The outcome of Air Canada's CCAA proceedings (including the claims of IAT against Air Canada) remains in doubt and further vacancy could result from this although the degree of exposure has been substantially reduced.

The level of distributions to Unitholders remains subject to the changes in IAT's occupancy level.

It is possible that one or more of the authorities at airports where IAT sublets air cargo facilities may

develop and lease air cargo facilities in direct competition to IAT. To date, no authority has done so. Other developers of such space may also compete with IAT either at or near such airports.

The Vancouver International Airport Authority (VIAA) has adopted land management guidelines for airside lands which include provisions regarding future development of airside lands and facilities. These indicate that the VIAA is seeking higher development densities and cargo processing rates and to encourage competition in supply of airside facilities. Further facilities are to be developed primarily under a direct lease from the VIAA to an end-user, by an end-user who elects to use a third-party developer, or by a third-party developer selected through a public or competitive process for specific projects. Airside lands to be developed for multi-tenant use are to be offered in a public or competitive process. The VIAA guidelines also indicate that it may build airside facilities itself or in conjunction with others. This approach has led to a significant single tenant project being developed directly by that "end-user" tenant on land leased directly from VIAA at the Vancouver Airport instead of leasing property to be developed by IAT.

IAT believes that if it has full opportunity to compete in a fair and open process for developments it can continue to offer competitive leasing terms to prospective tenants of new facilities.

April 19, 2004

IAT Management Inc.
per:

T. Richard Turner
President and Chief Executive Officer

Responsibility for Financial Reporting

The financial statements and other information pertaining to the Fund in this annual report are the responsibility of the Trustees of the Fund. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada and reflect estimates and judgements of the executive management of IAT.

IAT's executive management is also responsible for maintaining systems of internal and administrative controls to provide reasonable assurance that the Fund's assets are safeguarded, that transactions are properly executed in accordance with appropriate authorization and that the accounting systems provide timely, accurate and reliable financial information.

The Board of Directors is responsible for assuring that IAT's executive management fulfills its responsibility for financial reporting and internal control.

The financial statements have been audited on behalf of the Unitholders by PricewaterhouseCoopers LLP, Chartered Accountants, in accordance with generally accepted accounting standards. The Auditors' Report outlines the scope of their examination and their independent professional opinion on the fairness of these financial statements.

April 19, 2004

Robert J. Mair, Q.C.
Chairman
IAT Air Cargo Facilities Income Fund

AUDITORS' REPORT TO THE UNITHOLDERS OF IAT AIR CARGO FACILITIES INCOME FUND

We have audited the balance sheets of **IAT Air Cargo Facilities Income Fund** as at December 31, 2003 and 2002 and the statements of earnings and cumulative earnings and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Vancouver, British Columbia

March 8, 2004

IAT Air Cargo Facilities Income Fund

BALANCE SHEETS AS AT DECEMBER 31, 2003 AND 2002

	2003 $	2002 $
ASSETS		
Current assets		
Cash	1,169,276	1,631,415
Investment in IAT (note 3(a))	54,411,497	57,606,495
	55,580,773	59,237,910
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities		
Accounts payable	7,327	2,012
Distribution payable to unitholders	1,168,277	1,899,159
Due to IAT (note 3(b))	62,078	45,836
	1,237,682	1,947,007
Unitholders' Equity		
Capital contributions (note 4)	65,008,658	65,008,658
Cumulative earnings	28,533,327	25,825,513
Cumulative distributions declared (note 5)	(39,198,894)	(33,543,268)
	54,343,091	57,290,903
	55,580,773	59,237,910

Approved by the Fund Trustees

Trustee
Robert J. Mair

Trustee
Thomas V. Milroy

The accompanying notes are an integral part of these financial statements.

IAT Air Cargo Facilities Income Fund

Statements of Earnings and Cumulative Earnings for the Years Ended December 31, 2003 and 2002

	2003 $	2002 $
Income		
Interest income on IAT subordinated notes (note 3(a))	5,756,998	6,305,009
Equity in loss of IAT	(1,699,671)	(1,330,375)
Amortization of purchase price discrepancy (note 3(a))	(1,052,000)	(1,052,000)
	3,005,327	3,922,634
Expenses		
Administration	297,513	190,711
Net earnings for the year	2,707,814	3,731,923
Cumulative earnings - Beginning of year	25,825,513	22,093,590
Cumulative earnings - End of year	28,533,327	25,825,513
Basic and diluted earnings per trust unit	0.410	0.591
Weighted average number of trust units outstanding	6,606,368	6,316,790

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows
for the Years Ended December 31, 2003 and 2002

	2003 $	2002 $
Cash flows from operating activities		
Net earnings for the year	2,707,814	3,731,923
Items not affecting cash		
Equity in loss of IAT	1,699,671	1,330,375
Amortization of purchase price discrepancy	1,052,000	1,052,000
	5,459,485	6,114,298
Change in non-cash working capital items	21,557	10,931
	5,481,042	6,125,229
Cash flows from investing activities		
Dividends received from IAT	443,327	972,272
Note receivable from IAT	–	(11,500,000)
Purchase of IAT shares	–	(2,648,143)
	443,327	(13,175,871)
Cash flows from financing activities		
Distributions paid to unitholders	(6,386,508)	(6,715,949)
Units issued for cash	–	14,599,260
Issue costs	–	(466,774)
	(6,386,508)	7,416,537
(Decrease) increase in cash	(462,139)	365,895
Cash - Beginning of year	1,631,415	1,265,520
Cash - End of year	1,169,276	1,631,415

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

1. Organization and basis of presentation

IAT Air Cargo Facilities Income Fund (the Fund) is an unincorporated limited purpose trust created pursuant to a declaration of trust made as of March 15, 1997 (the Declaration of Trust) and governed by the laws of the Province of British Columbia. The Fund was created to acquire the common shares and subordinated notes of International Aviation Terminals Inc. (IAT) (note 3). The Fund's acquisition of the common shares and subordinated notes is financed by the public issue of units of the Fund (note 4).

While the Fund owns all of IAT's issued common shares, a corporate governance agreement provides that LMT Management Ltd. (LMT), a company beneficially owned by the previous shareholders of IAT, is entitled to designate three of IAT's five directors. Accordingly, IAT does not meet the definition of a subsidiary for accounting purposes and the Fund accounts for its investment from the effective date of the acquisition using the equity method. Under this method, the cost of the investment is increased (decreased) by IAT's earnings (loss) and reduced by any dividends paid to the Fund by IAT. Periodically, the fund reviews the carrying value of its investment in IAT for impairment. The investment will be written down if there is a decline in value that is considered to be other than temporary.

2. Significant accounting policies

Income taxes

The Fund is a unit trust for income tax purposes. As such, the Fund is only taxable on any taxable income not allocated to the unitholders. During 2003 and 2002, the Fund allocated all of its taxable income to the unitholders (note 5) and, accordingly, no current provision for income taxes has been made in these financial statements.

The Fund and IAT account for income taxes using the liability method. Under this method, future income taxes are recognized for the future income tax consequences attributable to differences between the financial statement carrying values and their respective income tax bases. Future income tax assets and liabilities are measured using substantively enacted income tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period in which the change occurs.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

3. Investment in subordinated notes and common shares of IAT

a) The investment in IAT is made up as follows:

	2003 $	2002 $
Subordinated notes	53,000,000	53,000,000
Common shares - at equity		
Balance - Beginning of year	4,337,748	5,097,979
Less:		
Amortization of purchase price discrepancy	(1,052,000)	(1,052,000)
Equity in loss of IAT	(1,699,671)	(1,330,375)
Dividends received	(174,580)	(757,272)
Dividends receivable	–	(268,747)
Purchase of IAT common shares	–	2,648,163
Balance - End of year	1,411,497	4,337,748
Dividend receivable	–	268,747
Investment in IAT - End of year	54,411,497	57,606,495

The subordinated notes mature June 10, 2027 with interest paid quarterly. The notes are not redeemable or retractable before that date and are unsecured and subordinated to all other senior indebtedness, as defined.

During 2003, IAT and the Fund agreed to modify the calculation of interest on subordinated notes. Effective July 1, 2003, the interest rate payable on the subordinated notes will be the greater of:

i) 6.0%; and

ii) 92.5% of the Corporation's earnings before interest expense and amortization, but after current income tax for the interest period and interest and principal paid in respect of Senior Indebtedness, but not exceeding 12.5%.

Prior to July 1, 2003, the subordinated notes bore interest at 12.5% per annum, payable on a quarterly basis.

During 2002, the Fund subscribed for an additional $11,500,000 of subordinated notes and $2,648,163 of common shares.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

The Fund has determined its purchase price discrepancy, representing the excess of the purchase price paid over the related net book value of the IAT assets acquired in 1997, to be $22,983,000. The purchase price discrepancy has been ascribed and amortized as follows:

			2003	2002
	Purchase price discrepancy $	Accumulated amortization $	Net $	Net $
Land leases and buildings	41,336,000	(10,781,000)	30,555,000	32,199,000
Future income taxes	(18,353,000)	7,354,000	(10,999,000)	(11,591,000)
	22,983,000	(3,427,000)	19,556,000	20,608,000

Land leases and buildings are being amortized over the terms of the related land leases.

b) The advances from IAT are due on demand and do not bear interest.

4. Unitholders' capital

The Declaration of Trust provides that an unlimited number of trust units may be created and issued. Each unit represents an equal undivided beneficial interest in any distributions from the Fund and in the net assets in the event of termination or wind-up of the Fund. All units are of the same class with equal rights and privilege.

Units outstanding as at December 31 are:

		2003		2002
	Number of units	Amount $	Number of units	Amount $
Balance - Beginning of year	6,606,368	65,008,658	5,285,168	50,876,172
Units issued	–	–	1,321,200	14,132,486
Balance - End of year	6,606,368	65,008,658	6,606,368	65,008,658

Under a prospectus dated May 30, 1997, the Fund qualified the distribution and sale of 5,285,168 units for cash consideration of $10 per unit, which, after deducting the costs of the issue, resulted in net unitholders' capital of $50,876,172. A further private placement of 1,321,200 trust units in March 2002, for cash consideration of $11.05 per unit, increased unitholders' capital, after issue costs of $466,774, by $14,132,486.

Notes to Financial Statements for the Years Ended December 31, 2003 and 2002

Options

LMT has been granted options to purchase from IAT up to 2,274,929 authorized but unissued common shares as follows:

	2003		2002	
	Shares	Weighted average exercise price $	Shares	Weighted average exercise price $
Outstanding - Beginning of year	2,274,929	1.42	1,761,723	1.34
Granted	–	–	513,206	1.72
Outstanding - End of year	2,274,929	1.42	2,274,929	1.42
Options exercisable at year-end	1,864,364	1.36	1,761,723	1.34

The options issued during 2002 become exercisable annually, on a cumulative basis, over a five-year period commencing January 1, 2003. All of the options expire on June 10, 2007. Additional options may be granted if IAT issues additional shares. To date, no common shares have been purchased under the options.

Under certain conditions, the Fund has a call right to acquire from LMT, and LMT has a put right to sell to the Fund, the common shares acquired by LMT upon exercise of the options. The number of trust units to be exchanged for each common share is to be determined based upon the ratio of distributions paid per IAT share to distributions paid per Fund unit over the previous 12 months.

5 Distributions to unitholders

Distributions to unitholders are made on a quarterly basis. The amount of cash to be distributed annually to unitholders is equal to the total interest income earned on the subordinated notes and dividends or returns of capital received on the common shares of IAT, less any expenses incurred by the Fund or amounts that may be paid in connection with any cash redemption of units.

During the year ended December 31, 2003, the fund declared distributions to unitholders of $5,655,626 (2002 - $7,352,000).

The financing costs incurred by the Fund on the issue of the units are deductible by the Fund on a straight-line basis over five years. Issue costs deducted by the Fund allow the Fund to designate an equivalent amount as a return of capital for income tax purposes to the unitholders. Of the initial financing costs of $1,975,508, $78,974 was available and fully amortized in 2002. An additional $466,774 of financing costs were incurred for the March 2002 unit issue, and will be amortized on a straight-line basis over five years. As at December 31, 2003, $280,064 of these issue costs are available for future designation as a return of capital.

Notes to Financial Statements for the Years Ended December 31, 2003 and 2002

6 Fund administration

The Fund has engaged IAT Management Inc. (IAT Management), a company controlled by IAT's president and chief executive officer, to provide administrative services to the Fund. The Fund will reimburse IAT Management for any incidental expenses incurred on its behalf. During the years ended December 31, 2003 and 2002, no expenses were reimbursed by the Fund.

7 IAT's management agreements

Pursuant to property management, leasing, and marketing agreements between IAT and IAT Management, IAT Management has agreed to provide IAT with property management, development, leasing, and marketing services for the properties owned and leased by IAT. These agreements were amended during 2003. The agreements have a ten-year term that extends automatically. IAT may terminate the agreement with 90 days notice and payment of a termination fee. IAT management may terminate the agreements with one year's notice or if the square footage of properties under management is less than 458,000 square feet. IAT was charged $1,198,803 for the year ended December 31, 2003 (2002 - $1,314,903) under the agreements. The property management fees are recoverable from tenants.

Pursuant to a strategic management agreement between IAT and LMT, LMT has agreed to provide strategic management and advice to IAT for a period of 10 years ending in 2007 subject to certain early termination rights and obligations. IAT will reimburse LMT for expenses incurred over the term of the agreement ($nil to date). LMT has been granted options to acquire authorized but unissued shares of IAT (note 4).

8 Financial instruments

The carrying values of the Fund's financial instruments approximate fair values in each case, except for the Fund's investment in subordinated notes and common shares of IAT. It is not practicable to determine the fair value of the investment given the terms and conditions that would influence such a determination.

9 Related party transactions

During the year ended December 31, 2003, the Fund paid an aggregate amount of $50,000 for financial advice to a company whose vice-chair is a Trustee of the Fund.

During the year ended December 31, 2002, the Fund paid an aggregate amount of $803,000 of underwriting fees to a company whose vice-chair is a Trustee of the Fund and the Fund was reimbursed $466,774 by IAT in respect of the underwriting fees.

International Aviation Terminals Inc.

AUDITORS' REPORT TO THE SHAREHOLDER OF INTERNATIONAL AVIATION TERMINALS INC.

We have audited the balance sheets of **International Aviation Terminals Inc.** as at December 31, 2003 and 2002 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. As required by the British Columbia Company Act, we report that, in our opinion, these principles have been applied on a consistent basis.

PricewaterhouseCoopers LLP

Chartered Accountants
Vancouver, British Columbia

March 8, 2004

International Aviation Terminals Inc.

BALANCE SHEETS AS AT DECEMBER 31, 2003 AND 2002

	2003 $	2002 $
ASSETS		
Current assets		
Cash	1,962,903	1,824,467
Accounts receivable (note 11(a))	208,712	90,690
Recoverable costs	643,997	452,571
Prepaid expenses and deposits	265,078	219,134
Advances to IAT Air Cargo Facilities Income Fund (note 11(c))	62,078	45,836
Restricted cash (note 3)	–	196,597
	3,142,768	2,829,295
Intangible assets (note 4)	24,460,866	26,102,966
Property and equipment (note 5)	37,441,929	38,733,788
	65,045,563	67,666,049
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	1,039,819	750,842
Tenant deposits	1,568,133	1,437,247
Deferred revenue	293,540	504,549
Current portion of long-term debt (note 6)	500,615	422,052
Dividends payable (note 7)	–	268,747
	3,402,107	3,383,437
Long-term debt (note 6)	68,197,624	68,044,529
Future income taxes (note 10)	12,057,402	12,975,402
	83,657,133	84,403,368
SHAREHOLDER'S DEFICIENCY		
Capital stock (note 7)	13	13
Contributed surplus (note 7)	6,821,940	6,996,520
Deficit	(25,433,523)	(23,733,852)
	(18,611,570)	(16,737,319)
	65,045,563	67,666,049

Commitments (note 9)

Approved by the Board of Directors

Director
T. Richard Turner

Director
W. John Dawson

The accompanying notes are an integral part of these financial statements.

International Aviation Terminals Inc.

STATEMENTS OF OPERATIONS AND DEFICIT FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003 $	2002 $
Lease revenue	9,553,889	10,502,824
Expenses		
Operating costs (note 11(a))	8,090,448	7,914,124
Cost recoveries	(6,840,332)	(7,344,117)
Leasing and marketing fees (note 11(a))	326,891	360,837
Selling, general and administrative	315,454	331,749
Interest on mortgages, less interest income (note 6)	999,873	1,360,659
	2,892,334	2,623,252
Earnings before the following	6,661,555	7,879,572
Interest on notes (note 6)	5,756,998	6,305,009
Amortization (notes 4 and 5)	3,405,467	3,225,382
Writedown of property and equipment (note 5)	–	350,973
	9,162,465	9,881,364
Loss before income taxes	(2,500,910)	(2,001,792)
Provision for (recovery of) income taxes (note 10)		
Current	116,761	112,237
Future	(918,000)	(783,654)
	(801,239)	(671,417)
Loss for the year	(1,699,671)	(1,330,375)
Deficit - Beginning of year	(23,733,852)	(22,403,477)
Deficit - End of year	(25,433,523)	(23,733,852)

The accompanying notes are an integral part of these financial statements.

International Aviation Terminals Inc.

Statements of Cash Flows
for the Years Ended December 31, 2003 and 2002

	2003 $	2002 $
Cash flows from operating activities		
Loss for the year	(1,699,671)	(1,330,375)
Items not affecting cash		
Amortization	3,405,467	3,225,382
Future income taxes	(918,000)	(783,654)
Writedown of property and equipment	–	350,973
	787,796	1,462,326
Change in non-cash working capital items	(146,538)	176,391
	641,258	1,638,717
Cash flows from investing activities		
Additions to tenant improvements	(471,508)	(474,567)
Restricted cash	196,597	122,248
Advances to IAT Air Cargo Facilities Income Fund	(16,242)	(11,338)
	(291,153)	(363,657)
Cash flows from financing activities		
Long-term debt borrowing	2,150,000	11,500,000
Repayment of long-term debt	(1,918,342)	(13,742,560)
Dividends on common shares	(443,327)	(972,276)
Issue of share capital - net of expenses	–	2,181,369
	(211,669)	(1,033,467)
Increase in cash	138,436	241,593
Cash - Beginning of year	1,824,467	1,582,874
Cash - End of year	1,962,903	1,824,467
Supplemental information		
Interest paid	6,891,731	7,731,055
Income taxes paid	124,436	133,874

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements for the Years Ended December 31, 2003 and 2002

1. Business of the company

International Aviation Terminals Inc. (the company or IAT) is in the business of developing and leasing buildings and related space at airports, which are designed for use by businesses involved in air transport services including air cargo, aircraft maintenance and ground handling. IAT leases land at airports in Vancouver, Calgary, Edmonton, Saskatoon and Winnipeg under long-term ground leases from airport authorities or the Government of Canada.

The company is a wholly owned subsidiary of IAT Air Cargo Facilities Income Fund (the Fund).

2. Significant accounting policies

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions. These estimates affect the reported amounts of assets and liabilities and the reported amount of expenses during the period. Actual results could differ from these estimates.

Revenue recognition

The company, as a lessor, retains substantially all of the benefits and risks of ownership of the properties and accounts for its leases as operating leases. Lease revenue is recognized as earned. Cost recoveries from tenants for real estate taxes and other recoverable operating expenses are recognized in the period the applicable expenses as incurred.

Recoverable costs

In its leases with tenants, the company makes provision to recover, in addition to the rent paid, a proportionate share of the company's operating and maintenance costs, including rent paid by the company on its ground leases. Such costs and their recovery are recorded as incurred. Certain maintenance costs are deferred and recovered over a period ranging from 3 to 10 years.

Property and equipment

Property and equipment are recorded at cost, which includes capitalized interest during the construction period, less accumulated amortization.

Amortization of property and equipment is computed using the following methods and rates:

Buildings:	sinking fund - lesser of term of land lease and 40 years at 5%
Office equipment:	declining balance - 8% to 50%
Tenant improvements:	straight-line over terms of tenant leases
Fencing, signs, paving and landscaping:	declining balance - 8% to 20%

No amortization is recorded on construction-in-progress until the facility is available for use.

Intangible assets

Intangible assets are recorded at cost less accumulated amortization. Amortization of intangible assets is computed over the term of the contractual arrangement as follows:

Land leases:	straight-line over terms of land leases
Non-compete agreement:	straight-line - 10 years

Impairment of property, equipment and intangible assets

The company reviews the carrying value of property, equipment and intangible assets for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from estimated future cash flows expected to result from its use and eventual disposition based on management's best estimate. In cases where undiscounted expected future cash flows are less than the carrying value, a writedown is recognized equal to the difference between the carrying value and the estimated fair value. The estimation of expected future net cash flows is inherently uncertain and relies on assumptions regarding current and future economics and market conditions. If impairment analysis assumptions change, then an adjustment to the carrying value of the company's long-lived assets could occur in the future period in which the assumptions change. To the extent that a property is impaired, the excess of the carrying amount of the property over its estimated fair value is charged to earnings. The company believes that there is no impairment of the carrying values of its properties as of December 31, 2003.

Deferred revenue

Tenant rentals are normally billed in advance. Amounts received in advance are deferred and recognized as revenue over the billing period.

Joint ventures

The company accounts for its interest in joint ventures using the proportionate consolidation method.

Income taxes

The company accounts for income taxes using the liability method. Under this method, future income taxes are recognized for the future income tax consequences attributable to differences between the financial statement carrying values and their respective income tax bases. Future income tax assets and liabilities are measured using substantively enacted income tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period in which the change occurs.

3. Restricted cash

The company was required to initially set aside $541,732 as restricted cash under the terms of a property purchase agreement entered into in 2000. This amount was contingently payable to the vendors based on the cumulative cash flow associated with the property for a period of three years. In accordance with provisions which allow the company to make annual withdrawals, the company withdrew $196,597 during the year ended December 31, 2003 (2002 - $122,248) leaving a balance of restricted cash of $nil (2002 - $196,597).

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

4. Intangible assets

			2003
	Cost $	Accumulated amortization $	Net $
Land leases	36,182,694	12,614,328	23,568,366
Non-compete agreement	1,350,000	457,500	892,500
	37,532,694	13,071,828	24,460,866

			2002
	Cost $	Accumulated amortization $	Net $
Land leases	36,182,694	11,107,228	25,075,466
Non-compete agreement	1,350,000	322,500	1,027,500
	37,532,694	11,429,728	26,102,966

Amortization of intangible assets amounted to $1,642,100 for the year (2002 - $1,614,726).

5. Property and equipment

			2003
	Cost $	Accumulated amortization $	Net $
Buildings	47,097,552	11,338,084	35,759,468
Office equipment	159,516	139,646	19,870
Tenant improvements	2,268,761	979,729	1,289,032
Fencing, signs, paving and landscaping	839,909	466,350	373,559
	50,365,738	12,923,809	37,441,929

Notes to Financial Statements
for the Years Ended December 31, 2003 and 2002

			2002
	Cost $	Accumulated amortization $	Net $
Buildings	47,097,552	9,889,049	37,208,503
Office equipment	159,516	127,754	31,762
Tenant improvements	1,388,030	766,566	621,464
Fencing, signs, paving and landscaping	839,909	439,861	400,048
Construction-in-progress	472,011	–	472,011
	49,957,018	11,223,230	38,733,788

Amortization of property and equipment amounted to $1,763,367 for the year (2002 - $1,610,656).

During 2002, a non-revenue producing tunnel which provides airside access was written down for a loss of $350,973.

6. Long-term debt

	2003 $	2002 $
Subordinated notes	53,000,000	53,000,000
Mortgages	15,698,239	15,466,581
	68,698,239	68,466,581
Less: Current portion of mortgages	500,615	422,052
	68,197,624	68,044,529

During the year ended December 31, 2002, mortgages in the amount of $13,238,983 were retired from cash raised through the issue of $11,500,000 of notes payable and $2,648,143 of common shares to the Fund (note 7).

The aggregate principal payments required in the next five years and thereafter of the above mortgages are as follows:

	$
Year ending December 31	
2004	500,615
2005	537,518
2006	2,970,185
2007	529,838
2008	5,886,594
Thereafter	5,273,489
	15,698,239

Terms and conditions

The subordinated notes, all of which are held by the Fund, mature on June 10, 2027 with interest paid quarterly. The notes are not redeemable or retractable before that date, and are unsecured and subordinated to all other senior indebtedness, as defined.

During 2003, IAT and the Fund agreed to modify the calculation of interest on subordinated notes. Effective July 1, 2003, the interest rate payable on the subordinated notes will be the greater of:

a) 6.0%; and

b) 92.5% of the company's earnings before interest expense and amortization, but after current income tax for the interest period and interest and principal paid in respect of senior indebtedness, but not exceeding 12.5%.

Prior to July 1, 2003, the subordinated notes bore interest at 12.5% per annum, payable on a quarterly basis.

The mortgages are payable in monthly instalments, including interest at rates from 6.63% to 7.80% (2002 - 6.95% to 7.80%). Buildings to which the mortgages relate or other property and equipment of the company, and an assignment of leases and rents, have been pledged as security. The mortgages have initial terms of 5 to 10 years and are normally renewed upon maturity.

Interest

Interest expense comprises:

	2003 $	2002 $
Subordinated notes	5,756,998	6,305,009
Mortgages	1,126,091	1,356,981
Cancellation penalty	–	123,866
Interest income	(126,218)	(120,188)
	6,756,871	7,665,668

The company also had an unused operating facility of $750,000 as at December 31, 2003 and 2002.

Notes to Financial Statements
for the Years Ended December 31, 2003 and 2002

7. Capital stock

Authorized –
100,000,000 common shares without par value

	Number of shares	Amount $
Outstanding - December 31, 2001	5,285,168	10
Issued - March 22, 2002	1,539,618	3
Outstanding - December 31, 2002 and 2003	6,824,786	13

During the year ended December 31, 2002, the company issued $2,648,143 of common shares to the Fund, $3 of which was allocated to capital stock and $2,181,366 (after deducting $466,774 of issue costs) of which was allocated to contributed surplus. During the year ended December 31, 2003, dividends amounting to $174,580 (2002 - $1,026,023) were declared to the Fund and charged against contributed surplus as follows:

	2003 $	2002 $
Contributed surplus - Beginning of year	6,996,520	5,841,177
Allocation from issuance of common shares - net of expenses associated with issue (note 11(d))	–	2,181,366
Dividends paid	(174,580)	(757,276)
Dividends declared and paid subsequent to year-end	–	(268,747)
Contributed surplus - End of year	6,821,940	6,996,520

Stock options

Under the terms of the 1997 Option to Purchase and Corporate Governance Agreements, LMT Management Ltd. (LMT), a company beneficially owned by the previous shareholders of the company, was granted options over a 10-year period to June 10, 2007 to purchase from the company up to 1,761,723 common shares from treasury for the aggregate purchase price of $2,351,900 to represent 25% of the outstanding shares of the company. Additional options are to be granted if the company issues shares of the company such that LMT retains the option to acquire 25% of the outstanding shares. During 2002, LMT was granted additional options to purchase an additional 513,206 common shares from treasury as a result of the March 22, 2002 share issuance. These additional options vest equally each year beginning January 1, 2003 over a five year period and expire June 10, 2007.

A summary of the available options as of December 31, 2003 and 2002 and changes during the years ended on those dates is presented below:

	2003		2002	
	Shares	Weighted average exercise price $	Shares	Weighted average exercise price $
Outstanding - Beginning of year	2,274,929	1.42	1,761,723	1.34
Granted	–	–	513,206	1.72
Outstanding - End of year	2,274,929	1.42	2,274,929	1.42
Options exercisable at year-end	1,864,364	1.36	1,761,723	1.34

8. Joint venture

The company has a 50% interest in a venture that owns a building at Vancouver International Airport. Summarized financial information relating to IAT's share of the joint venture is provided below.w.

	2003 $	2002 $
Assets		
Current assets	80,385	92,767
Property and equipment	1,763,204	1,803,903
Liabilities		
Current liabilities	112,404	62,343
Long-term debt	1,743,396	1,845,340
Lease revenue	283,003	283,008
Administrative expenses	191,642	197,304
Net earnings after tax	69,826	74,537
Cash flows from operating activities	124,325	106,014
Cash flows from financing activities	(135,839)	(45,112)

IAT has provided a guarantee for its share of the venture's long-term debt.

Notes to Financial Statements for the Years Ended December 31, 2003 and 2002

9. Commitments

Operating leases

The company leases land from the Government of Canada and local airport authorities at airports in Western Canada. These leases are for varied terms, in certain cases with rights of renewal and rights of first refusal, extending for periods expiring between March 31, 2008 and September 30, 2029.

Future minimum operating lease payments, using current established rates, are as follows:

	$
2004	2,471,106
2005	2,471,106
2006	2,468,806
2007	2,467,656
2008	2,413,484
Thereafter	28,588,316
	40,880,474

10. Income taxes

Significant components of the company's future tax assets and liabilities as at December 31, 2003 and 2002 are as follows:

	2003 $	2002 $
Future tax assets		
Non-capital loss carry-forwards	900,000	694,000
Other reserves	289,022	457,000
Total future tax assets	1,189,022	1,151,000
Future tax liabilities		
Book value of property and equipment and intangible assets in excess of tax	13,246,424	14,126,402
Net future tax liability	12,057,402	12,975,402

The company's non-capital loss carry-forwards expire commencing in 2006.

The reconciliation of income tax attributable to company operations, computed at the statutory tax rates to income tax expense, is as follows:

	2003 $	2002 $
Recovery based on combined federal and provincial tax rates	(918,000)	(791,000)
Large corporations tax	116,761	112,237
Change in future taxes resulting from tax rate reductions	–	–
Other	–	7,346
Recovery of income taxes	(801,239)	(671,417)

11. Related party transactions

a) Agreements with IAT Management Inc. (IAT Management)

The company has agreements to pay property management, development, leasing, and marketing fees to IAT Management, a company controlled by the company's president and chief executive officer. During the year ended December 31, 2003, the company was charged $1,198,803 (2002 - $1,314,903) under the agreements. At December 31, 2003, a balance of $73,399 (2002 - $7,672) was receivable from IAT Management. The agreements were amended during the year. The agreements have a ten year term that extends automatically. IAT may terminate the agreements with 90 days notice and payment of a termination fee. IAT Management may terminate the agreements with one year's notice or if the square footage of properties under management is less than 458,000 square feet. The property management fees are included in operating costs and are recoverable from tenants.

Gross rental income earned from IAT Management during the year ended December 31, 2003 was $125,000 (2002 - $125,000).

b) Agreement with LMT

Effective June 10, 1997, the company entered into an agreement with LMT, which has the right to nominate three of the company's five directors and to recommend the appointment of the executive officers of the company. LMT is to provide strategic management and advice to the company for a period of 10 years. The company will reimburse LMT for expenses incurred over the 10-year term of the agreement ($nil to date). The agreement may be terminated by LMT with 12 months' notice. LMT holds an option to purchase common shares of the company (note 7).

c) The advances to the Fund are due on demand and do not bear interest.

d) During the year ended December 31, 2003, the company reimbursed the Fund $nil (2002 - $466,774) in respect of expenses associated with issuing common shares (note 7).

Notes to Financial Statements for the Years Ended December 31, 2003 and 2002

12. Financial instruments

The fair values of the company's financial assets and liabilities that represent net working capital approximate their recorded values due to their short-term nature.

The fair value of the company's mortgages and tenant deposits are estimated to approximate their recorded value at December 31, 2003 and 2002.

It is not practicable to determine the fair value of the subordinated notes given the terms and conditions that would influence such a determination.

13. Segmented information

Management has determined that during the year ended December 31, 2003, the company operated within one business segment, which is the leasing of air cargo and related facilities in Canada.

During the years ended December 31, 2003 and 2002, Air Canada constituted 6% and 19% of total revenue, respectively. On April 1, 2003, Air Canada, obtained a stay of proceedings order under the Companies' Creditors Arrangement Act granting it protection from creditors' rights, including the enforcement of landlords' remedies. This order permits Air Canada to continue its operations and, subject to approvals, to determine which of its obligations, including leases, that it will continue to meet.

Fund Information

IAT Air Cargo Facilities Income Fund

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Stock Exchange Listing / Symbols

Toronto Stock Exchange - ACF.UN

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